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FM AMEMBASSY BOGOTA
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C O N F I D E N T I A L SECTION 01 OF 02 BOGOTA 11497

E.O. 12356: DECL: OADR
TAGS: ENGR, EPET, IBRD, KALR, CO
SUBJECT: OXY SEEKS USG SUPPORT FOR WORLD BANK LOAN TO
- ECOPEPETROL

REF: BOGOTA 8989

1. THIS UPDATES PETROLEUM SECTOR DEVELOPMENTS REPORTED
REFTEL AND IS AN ACTION CABLE.

2. (LOU) SUMMARY: OCCIDENTAL PETROLEUM EXECUTIVE
BRIEFED THE AMBASSADOR AB)UT OCCIDENTAL'S ONGOING OIL
EXTRACTION AND EXPLORATION ACTIVITIES AND PROBLEMS
RELATED TO FINANCING AND SECURITY. THE GOC COULD EARN
DOLS 1.2 BILLION PER YEAR FOR AT LEAST FIVE YEARS FROM
EXPORTS OF ARAUCA OIL. ONE BOTTLENECK IS THE GOC'S
NEED TO OBTAIN 600 TO 800 MILLION DOLLARS TO FUND ITS
SHARE OF OIL FIELD DEVELOPMENT AND PIPELINE EXPANSION
COSTS. THE WORLD BANK WILL CONSIDER AN OIL FACILITY
LOAN SHORTLY AND OXY OFFICIALS SEEK USG SUPPORT. WE
URGE FAVORABLE CONSIDERATION BECAUSE OF THE VITAL
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IMPORTANCE OF OIL REVENUES TO COLOMBIA'S EFFORTS TO
RESOLVE ITS ECONOMIC DIFFICULTIES. END SUMMARY.

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J. OLSON
DATE/CASE ID: 5 NOV 2002 200201334

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3. (LOU) THE MANAGER OF OCCIDENTAL PETROLEUM IN COLOMBIA, EDGAR QUINONES, TOLD THE AMBASSADOR THAT OXY HAS FOUND SIGNIFICANT PETROLEUM RESERVES, PERHAPS OVER ONE BILLION BARRELS, CLOSE TO THE VENEZUELAN BORDER IN THE ARAUCA DEPARTMENT. OXY IS DEVELOPING THE ARAUCA RESERVOIR UNDER THE SO-CALLED CRAVO NORTH ASSOCIATION CONTRACT WITH ECOPETROL. QUINONES NOTED OXY'S EFFORTS TO HELP ECOPETROL OBTAIN PROJECT FINANCING FOR THEIR JOINT PROJECT, AND SAID THAT THE COLOMBIAN OIL COMPANY WILL NEED TO RAISE 600 TO 800 MILLION DOLLARS TO FUND HALF OF THE ARAUCA OIL FIELD DEVELOPMENT COSTS. THE GOVERNMENT OF COLOMBIA HAS ASKED THE WORLD BANK FOR LOANS FROM ITS OIL DEVELOPMENT FACILITY. OXY HAS SUPPORTED THIS EFFORT AND ACCORDING TO QUINONES, BANK WILL CONSIDER THE ECOPETROL LOAN SHORTLY. OXY OFFICIALS PLAN TO VISIT STATE AND TREASURY NEXT WEEK TO ASK FOR USG SUPPORT, STRESSING THE IMPORTANCE OF ELIMINATING OIL IMPORTS AND INCREASING OIL REVENUES TO COLOMBIA'S EFFORTS TO EXTRICATE ITSELF FROM ITS CURRENT ECONOMIC DIFFICULTIES.

4. (LOU) QUINONES SAID THAT OXY'S ESTIMATE OF PROVEN RESERVES IN THE CRAVO NORTH AREA IS NOW 760 MILLION BARRELS, WITH POTENTIAL RESERVES WELL OVER ONE BILLION. QUINONES REVEALED THAT DISCOVERED RESERVES WILL PERMIT OXY TO PRODUCE UP TO 220,000 BARRELS PER DAY ONCE AN OIL PIPELINE IS BUILT TO CARRY THE ARAUCA OIL TO AN EXISTING PIPELINE SYSTEM IN RIO ZULIA. HIS ENGINEERS ESTIMATE THAT OXY COULD SUSTAIN THIS LEVEL OF PRODUCTION FOR AT LEAST FIVE YEARS. PRODUCTION WOULD DROP OFF

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SLOWLY ONLY IF NO NEW DISCOVERIES ARE MADE.

5. (LOU) OXY RECENTLY SIGNED A PIPELINE CONSTRUCTION CONTRACT WITH ECOPETROL. THE PIPELINE'S DESIGNED CAPACITY, ORIGINALLY FIXED AT 180 THOUSAND BARRELS PER DAY, WAS INCREASED TO 260 THOUSAND BARRELS IN LIGHT OF REVISED RESERVE ESTIMATES. THE CONTRACTOR, A GERMAN-ENGLISH CONSORTIUM, HAS AGREED TO COMPLETE THE 300 KILOMETER PIPELINE BY DECEMBER 1985. HOWEVER, QUINONES THINKS THAT MARCH 1986 IS A MORE REALISTIC DATE BECAUSE OF THE DIFFICULT TERRAIN AND A PROLONGED RAINY SEASON.

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6. (LOU) QUINONES IDENTIFIED THE CAPACITY OF THE EXISTING PIPELINE SYSTEM FROM RIO ZULIA TO THE MAJOR PIPELINE RUNNING THROUGH THE MAGDALENA VALLEY AS A CRITICAL BOTTLENECK TO THE EXPORT OF ARAUCA PRODUCTION. ECOPETROL IS CONSIDERING SEVERAL OPTIONS TO INCREASE ITS CARRYING CAPACITY. THESE INCLUDE BUILDING A NEW PIPELINE TO THE AYACUCHO REFINERY OR AN EXTENSION FROM RIO ZULIA TO THE DEEPWATER PORT AT COVENAS, SOUTH OF CARTAGENA.

7. (LOU) THE OXY EXECUTIVE ALSO PROVIDED AN ESTIMATE OF THE BALANCE OF PAYMENTS BENEFITS TO COLOMBIA FROM THE CRAVO NORTH ASSOCIATION. IF ALL GOES ACCORDING TO CURRENT PLANS, ECOPETROL'S SHARE OF REVENUES WILL BE DOLS 1.2 BILLION PER YEAR FOR AT LEAST FIVE YEARS. THIS ESTIMATE ASSUMES CURRENT WORLD OIL PRICES AND IS BASED ON ALREADY PROVEN RESERVES.

8. (C) QUINONES EXPRESSED CONCERN ABOUT SECURITY FOR OXY OPERATIONS. ON JUNE 12, HEAVILY-ARMED MEN TRIED TO BLOW UP TWO OXY OIL WELL HEADS WITH CHARGES OF

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NITRAMON (USED IN SEISMIC WORK). IN SPITE OF A PROFESSIONAL JOB IN PLACING THE EXPLOSIVES, THEIR ATTEMPT WAS FRUSTRATED WHEN THEY EXPLODED AN OIL TANK AND THE BURNING OIL SEVERED THE ELECTRONIC DETONATION CABLE. QUINONES COMMENTED THAT IF THIS ATTACK HAD BEEN SUCCESSFUL, THE ENSUING OIL FLOWS WOULD HAVE FLOODED THE AREA. THE LATEST INCIDENT OCCURRED ON SEPTEMBER 22 WHEN SEVERAL MEN DRESSED IN MILITARY FATIGUES FIRED SUBMACHINE GUNS AT A HELICOPTER, WOUNDING ONE WORKER. QUINONES BELIEVES THAT THESE MEN COULD BELONG TO THE ELN GUERRILLA GROUP. HE MENTIONED THE INCIDENT TO PRESIDENT BETANCUR DURING THE LATTER'S RECENT VISIT TO THE ARAUCA SITE, BUT SAID THAT BETANCUR DID NOT REACT TO THIS NEWS. QUINONES HAS ALSO HEARD THAT THE M-19 IS MOVING INTO THE AREA AND THAT COLOMBIAN MILITARY SOURCES HAVE EVIDENCE THAT AT LEAST SOME GUERRILLAS HAVE CONNECTIONS WITH THEIR COUNTERPARTS IN VENEZUELA.

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9. (C) QUINONES IS IN A QUANDRY ABOUT HOW TO HANDLE THE SECURITY PROBLEM. OXY IS WORKING AT MANY SCATTERED PRODUCTION SITES. MOREOVER, PIPELINE CONSTRUCTION CREWS, SCHEDULED TO BEGIN WORK IN OCTOBER, WILL ALSO BE SPREAD OVER A LARGE AREA. HE SURMISED THAT IT WOULD BE RELATIVELY EASY FOR GUERRILLAS TO DISRUPT WORK OR SCARE EMPLOYEES, AND IS ALSO CONCERNED ABOUT GUERRILLA INFILTRATION INTO HIS WORKFORCE.

10. (C) OXY HAS MIXED VIEWS ABOUT RECEIVING SECURITY ASSISTANCE FROM THE COLOMBIAN ARMY. HAMPERED BY LIMITED MOBILITY AND MANPOWER, THE ARMY HAS NOT BEEN EFFECTIVE IN SURPRESSING GUERRILLA ACTIVITY IN THE AREA. THE AMBASSADOR INDICATED THAT THE GOC HAS ACCEPTED 24.5 MILLION DOLLARS OF FMS CREDITS FOR FY 1984. HE SUGGESTED THAT THE PROPER SELECTION OF EQUIPMENT PURCHASES SHOULD HELP THE ARMY TO REDRESS THE MOBILITY PROBLEM OF SOME UNITS. QUINONES SAID OXY FEARS THAT AN OVERT, BUT INEFFECTIVE ARMY PRESENCE WILL MAKE THEIR OPERATIONS MORE SUSCEPTIBLE TO GUERRILLA HARASSMENT. INSTEAD, OXY IS WORKING TO BUILD STRONG, POSITIVE RELATIONS WITH THE LOCAL POLITICAL LEADERSHIP AND THE COMMUNITY IN THIS SPARSELY POPULATED REGION. THE COMPANY IS ALREADY PAYING GOOD WAGES TO ABOUT 700 DIRECT AND INDIRECT HIRE EMPLOYEES. PIPELINE CONSTRUCTION WILL CREATE AN

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ADDITIONAL 1800 JOBS. QUINONES HOPES THAT THESE BENEFITS COMBINED WITH THE EXPECTATION OF LOCAL REVENUES EXCEEDING FIVE MILLION PESOS (50 THOUSAND DOLLARS) PER DAY ONCE THE OIL IS FLOWING, WILL BE SUFFICIENT TO THWART LOCAL SUPPORT FOR GUERRILLA INTERFERENCE.

11. (LOU) QUINONES ALSO MENTIONED THE STATE OF
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COLOMBIAN-VENEZUELAN DISCUSSIONS ABOUT THE DEVELOPMENT OF THE ARAUCA FIELD, WHICH LIES ACROSS THEIR INTERNATIONAL BOUNDARY. RODOLFO SEGOVIA, PRESIDENT OF ECOPETROL, HELD DISCUSSIONS WITH CORPOVEN OFFICIALS IN CARACAS TWO MONTHS AGO, BUT OXY BELIEVES THAT THE DIFFERING INTERESTS OF THE TWO COUNTRIES WILL IMPEDE COOPERATION. COLOMBIA REPORTEDLY DOES NOT WANT TO UNITIZE THE FIELD AND THERE IS NOW A GENTLEMEN'S AGREEMENT TO RESPECT A DRILLING STANDBACK ZONE OF 600 METERS FROM THE BORDER.

12. (LOU) COMMENT: I URGE USG SUPPORT OF A WORLD BANK LOAN TO ECOPETROL. THE GOVERNMENT FACES SERIOUS CHALLENGES AS IT TRIES TO DEAL WITH DEPLETED INTERNATIONAL RESERVES, A GROWING FISCAL DEFICIT AND CONCURRENT POLITICAL PROBLEMS WHICH COULD RESULT IN INCREASED SOCIAL UNREST UNLESS THESE PROBLEMS ARE RESOLVED. OXY'S OIL DISCOVERIES HAVE COME AT A MOST PROPITIOUS TIME. WE SHOULD SUPPORT THIS VITAL PROJECT WHICH WILL EARN CRITICALLY NEEDED FOREIGN CURRENCY REVENUES FOR COLOMBIA. TAMBS

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